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SUBJECT: SCENESETTER FOR INNOVATION DIALOGUE DELEGATION'S  
VISIT TO MOSCOW AND NOVOSIBIRSK

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Introduction  
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¶1. (U) Your visit to Russia can help advance several of the goals Presidents Obama and Medvedev set out in their Bilateral Presidential Commission (BPC) to foster greater connectivity in key areas, including education, culture, business, and government, between the U.S. and Russia. The public-private composition of your delegation will be especially useful in promoting innovative use of internet technology and social media to achieve BPC objectives. The senior executives of connection technology companies will have the opportunity to communicate a vision for a modernization/innovation dialogue and discuss possible joint initiatives with Russian interlocutors from a wide array of public and private sector, and non-governmental organizations in Moscow and Novosibirsk.

¶2. (U) For USG officials on the delegation, the visit will continue the dialogue that several of you began during the visit by senior Russian officials to Boston in January. For the entire delegation, your meetings in Moscow and Novosibirsk will provide a people-to-people dimension to the "reset" in the bilateral political, economic and cultural relationship. It will also emphasize our support for the modernization agenda that President Medvedev advocates for Russia, with the understanding that greater interaction between our countries' business, civil society and educational institutions will help strengthen market and social reforms.

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The Political Dimension  
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¶3. (U) After almost two years of tandem leadership, President Medvedev and Prime Minister Putin appear to be working closely together to coordinate government policy. Medvedev has been a steady advocate of modernization in the economy, in use of technology, and in the political sphere. These themes have generated considerable public debate about the connection between political openness and economic prosperity. Constitutionally, President Medvedev has the lead on foreign policy and PM Putin handles the economic portfolio. Putin is the leader of the United Russia political party, which dominates national and regional politics. Putin continues to be slightly more popular (with approval ratings about 75 percent) than Medvedev (whose ratings are slightly under 70 percent).

¶4. (U) Civil society remains very active in Russia even under strict government regulation. The introduction of federal

NGO registration in January 2006 caused a number of smaller NGOs to close and several high-profile organizations to experience intense scrutiny. In July 2009, President Medvedev signed amendments to the laws governing NGOs that simplified reporting requirements for small organizations and reduced the number of times NGOs can be inspected. Nonetheless, Russian NGOs continue to face challenges, including a frequently changing legal environment and uneven enforcement of regulations. The Russian government formally recognized NGOs in their role as social service providers but in practice is skeptical of NGOs as valued partners. Municipal and local governments tend to be more responsive to interacting with civil society than those at the federal level. The recent financial crisis decreased significantly government funding for civil society activities and initiatives. Support for NGO activity in the media sector remains challenging and NGOs are often unable to promote effectively their activities broadly through public communications.

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The Economic Dimension  
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¶5. (U) In an effort to revive Russia's economy, President Medvedev has called for modernizing the country, including diversifying the economy from its dependence on extraction of natural resources, developing an innovation economy based on strong intellectual resources and commercialization of scientific research, integrating Russia into the global economy and its institutions such as the WTO, OECD, and G20, and fighting corruption.

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¶6. (U) Russia remains an attractive market for U.S. businesses, but Russia's foreign investment regulations and notification requirements can be confusing and contradictory. Corruption and legal incongruity are rampant, which adversely affects foreign investment. Scientific and technology cooperation is bedeviled by visa problems, Russian taxation of cooperative science projects, cumbersome customs duties, and lengthy and opaque bureaucratic processes for receiving permission to undertake certain types of joint work. GOR rhetoric of integration into the global economy often gets ahead of follow-on actions. While senior GOR officials have reiterated their commitment to accede to the WTO and OECD, the accession process has been slow and fitful. The U.S. trade relationship with Russia recently has experienced setbacks due to Russian non-tariff restrictions on meat, including a virtual prohibition on all poultry imports from the United States. The Russian Customs Union with Kazakhstan and Belarus, launched on January 1, further complicates Russia's accession to the WTO. The U.S. and the EU, however, continue to support Russian efforts to accede to the WTO.

¶7. (U) The Russian government has yet to realize a long-term growth strategy for modernizing and diversifying the economy, still dependent largely on oil and gas exports. Complicating matters is the fact that Russia is just now recovering from its severest economic downturn in a decade (GNP declined by 7.9 percent last year). While the country's currency and stock markets have stabilized, borrowing for non-state companies (particularly SME's and start-up companies in the high tech sector) remains expensive and largely unavailable.

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Modernization - Medvedev's Leitmotif  
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¶8. (U) Modernization of the Russian economy has become a central theme of Medvedev's presidency. In his article "Forward Russia!" (September 2009), President Medvedev identified "endemic corruption, negative demographic trends, and the inveterate habit of relying on the state, foreign

countries of some all-powerful doctrine to solve our problems" as key obstacles to Russia's progress. Some estimates place Russia 30 to 40 years behind developed economies in the technology sector and it will lag further without increased innovation. A recent Thomson Reuters report concluded that the political turmoil of the nineties, brain drain, and S&T budget reductions have transformed Russia from a leading science research nation into an increasingly minor player in the work of science. The core of Russia's problem, according to many observers, is the lack of a qualified high-tech labor force and the absence of a productive and dynamic environment for domestic business development and FDI. Scientific prowess is hamstrung by insufficient funding (with the budgets of some of Russia's best research institutes only 3-5% of comparably sized U.S. institutes) and a rapidly aging cadre of scientists, in marked contrast to the trend in growing, research-based economies.

¶9. (U) The Russian government is clearly searching for ways to promote modernization. In May 2009, President Medvedev established the Presidential Commission on Modernization and Technological Development. To achieve a high technology breakthrough, the Commission recommended that Russia should spend 10 billion rubles (\$333 million) in 2010 for five areas: energy efficiency, medical science, telecom, nuclear and information technologies.

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Information Technology and Telecom  
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¶10. (U) The Russian government recognizes that the information technology and telecoms sectors are essential to their modernization goals. Russia already has a solid cell phone network, with multiple providers. Introduction of new technology has been hampered, however, by restrictive notification and licensing requirement for importation of 3G and 4G equipment. Internet penetration in Russia is increasing rapidly, from 8% of the population with access in 2002 to 36% in 2009, although much is still dial-up. The Russian government is looking to move to broadband, with Telecom Minister Igor Shchegolev announcing that by 2015, 62

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of the country's 83 regions will have broadband internet access available, supported by 4G WiMax technology, for which the Ministry of Defense will provide frequencies.

¶11. (U) The government is counting on private companies to provide the infrastructure. Some companies have lobbied to have broadband access added to the list of "universal services" that receive subsidies from the government, although the government has not agreed to this approach. Recently, the Russian government approved a program to provide "IT companies" a tax break. The target beneficiaries appear to be software firms, and so far no company that has applied for this tax break has been turned down.

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Health Care  
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¶12. (U) Russia's health situation remains poor despite economic gains. The country's antiquated health care infrastructure continues to deteriorate, and access to adequate and affordable health care is limited, particularly in the vast rural sections of the country. The Deputy Minister of Health and Social Development has raised with USG officials Russia's interest in developing a system of telemedicine. In particular, the health ministry seeks a system that would allow medical specialists to provide diagnosis and recommend treatment over long distances, thereby helping to expand access to health care in Russia's vast rural areas. The United States included high-technology applications in health care among the proposals for

cooperation under the Health Working Group of the Bilateral Presidential Commission, plus USAID has initiated several activities and small scale model telemedicine programs. Further work in this area may be explored under the Health Working Group.

¶13. (U) Alcoholism and smoking are primary contributors to poor health and a rising tide of chronic diseases, including cardiovascular disease (the nation's number-one killer), diabetes, and cancer. Non-infectious diseases account for well over half of Russia's deaths every year. As a result of these factors, Russia's overall life expectancy was 67.8 years in 2008 -- well below that of other developed countries. Recognizing that excessive smoking and alcohol consumption are driving Russia's high mortality and low life expectancy, the government has made the promotion of healthy lifestyles a central plank in its national health plan. Innovative approaches, including the potential to use new technologies to address some of these endemic problems, offer interesting possibilities.

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Education  
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¶14. (U) Russia has a long history of excellence in the sciences and technological innovation, but the Russian educational and research sectors currently face several challenges, including 'brain drain' to the West and lack of financial incentives to lure young people into these fields. As part of the National Education Project, inaugurated in 2005, the government has taken steps to reverse this trend, including consolidating smaller regional educational institutions into seven 'Federal' universities to concentrate resources, improve the quality of research and, ultimately, enable Russia to compete on the international stage. As a further step in this direction, this month Prime Minister Putin created a new Department of Science, High Technology and Education within the Cabinet.

¶15. (U) To strengthen links between scientific research -- particularly scientific research with commercial applications -- and education, the Russian government conferred 'national research university' status on 14 universities through a competitive process. These institutions will receive federal funding for 5-10 years (approximately \$6 million in 2009), on the condition that they also raise an additional \$22 million, either from their own funds or from the local business community, and commit 50-60% of the funding to developing advanced laboratory facilities. The government expects these national research universities to create home-grown technological advancements, grow Russia's economy outside the sphere of natural resources, and rank among the world's top 200 institutions within 5-10 years.

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The Media  
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¶16. (U) Russian media is a study in contradictions. Freedom of the press is formally guaranteed by the Russian constitution, and yet -- even with no formal censorship organs in place -- few voices opposed to the Kremlin can be found in any of the national broadcast media. Most of the major television broadcasters are either owned directly by the State or controlled by corporations, such as Gazprom, which have close ties to the Russian government. This helps create a system of self-censorship where journalists and networks refrain from showing reports which may displease the authorities out of concern over economic retribution and other consequences that may follow. According to the International Press Institute, Russia is the most dangerous European country for journalists. Numerous opposition reporters have been attacked or killed in Russia over the

past decade, including the well-publicized murder of Anna Politkovskaya. A few independent voices still exist, however, and more balanced journalism can be found on the REN TV network and the radio station Ekho Moskv. There are more opposition voices in the print media, but none of the newspapers or journals has the reach of the national broadcasters.

¶17. (U) Traditional media have been reluctant to make the jump into new electronic forms of communication, and most strategies remain focused on broadcast and print outlets. That said, some organizations are adapting to the change and this has not gone unnoticed by the forces that wish to stifle dissonant voices. Novaya Gazeta, one of the main opposition newspapers also has a popular website. Recently, however, their servers have come under a denial of service attack that has led the newspaper's leadership to consider moving the site's hosting out of Russia. The Embassy is an active user of social media and online news services. The Ambassador has a regular Russian-language blog; we use Twitter to get out news of upcoming events and Skype and CO.NX (the State Department's version of Adobe's Connect Pro) to communicate with remote audiences.

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Note on Novosibirsk  
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¶18. (U) By all accounts Novosibirsk, the largest city in Siberia and Russia's third most populous, has largely escaped the worst of the economic crisis due to its multifaceted, technology-based economy, large student population and stimulus policies implemented by the local leadership for the hard-hit construction industry. The region's lack of natural resources turned out to be a blessing, keeping it from becoming a one industry town. Relations between the city of Novosibirsk and the oblast of the same name remain close due to the fact that current government Viktor Tolokonskiy and his predecessor were both previously deputy mayors and then mayors of Novosibirsk. In September 2009 the city hosted the first Interra Investment Forum which attracted potential investors in Novosibirsk's fledgling free trade zone near the airport as well as its planned TechnoPark within the historic Akademgorodok (Academic City). While in Novosibirsk, the delegation will meet with Governor Tolokonskiy as well as visit Akademgorodok to engage students, faculty, entrepreneurs and local technology start-up companies.

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Comment  
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¶19. (U) The government of Russia has committed to increasing resources to support science, technology and innovation. At the same time, the government has focused on large, top-down approaches for stimulating innovation, with goals that sound similar to the old 'State Planning Agency' approaches during the Soviet era, and reliance on large, politically influential state corporations. President Medvedev has taken up the 'innovation and commercialization' mantra, but many in the Russian government appear not to understand the risky, decentralized, independent and long-term nature of developing an innovation economy. As part of its mission, the innovation dialogue delegation can help encourage key government and private sector leaders to energize their

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efforts to create the business and intellectual environment necessary to foster innovation in Russia.  
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